



Press Release

Val-met Engineering Private Limited

June 16, 2020

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Fund Based	8.90	IVR BB+/Positive Outlook (IVR Double B Plus with Positive Outlook)	Assigned
Long Term Bank Facilities – Non Fund Based	25.20*	IVR BB+/Positive Outlook (IVR Double B Plus with Positive Outlook)	Assigned
Total	34.10		

* INR 8.00 Cr of Cash Credit is sub limited and INR 17.40 Cr of LC is sub limited

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Val-met Engineering Private Limited (VEPL) takes into account its experienced promoters with technical expertise, reputed and diversified clientele & suppliers. Further, the ratings derive comfort from its healthy profit margin, and improvement in its performance during 11MFY20 (provisional). These rating strengths partially offset by its moderate scale of operations, susceptibility of profitability to foreign exchange fluctuations and working capital intensive nature of operations marked by elongated receivable period.

The outlook remained positive on the back of expected improvement in scale of operations and in financial risk profile of the company in the near term backed by strong order book as on March 2020 (~2x of its provisional 11M FY 2020 total operating revenue).

Key Rating Sensitivities:

Upward Factors:

- Sharp increase in total income with significant improvement in margins and cash accruals on a sustained basis
- Improvement in the capital structure, debt protection metrics and liquidity



Press Release

Downward factors:

- Moderation in operating income or profitability and/or cash accrual, any further stretch in the working capital cycle driven by significant increase in inventory or stretched receivables, or sizeable capital expenditure impacting the financial risk profile, particularly liquidity.
- Deterioration in overall gearing to over 2x (overall gearing ratio as on 11M FY20 stood at 0.41x)

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters with technical expertise**

The Company is promoted by Mr. Subramoni PH (MD) who has an industry experience of over 20 years in the industry. Prior to starting Val-met he had International Industrial experience initially with M/s. AB Sandvik Materials Technology Sweden and then with M/s. Haynes Inc. USA, both operating for more than 100 years in the field of Specialty Materials and global market leaders in their products. Extensive experience of the MD underpins the business risk profile of the company and supports it to develop established relationship with its customers. Further, the directors and upper management of the company are well supported by an experienced team of professionals.

- **Reputed and diversified Clientele and suppliers**

The Company has reputed domestic clients in Space, Defence & Aviation in the Government/Public Sector, as well as in the Private Sector. The company is also a part of the supply chain of global aerospace OEMs and other reputed global companies.

- **Healthy order book position indicating a medium term revenue visibility**

The company is having a confirmed order book as on March 2020 (~2x of its provisional 11 M FY 2020 total operating revenue) which is to be executed by FY21, indicating satisfactory to medium revenue visibility.



Press Release

- **Healthy profit margins, albeit improvement in 11MFY20**

The company has maintained a healthy EBITDA margin of more than 20% over the years. However, absolute EBITDA and EBITDA margin, both witnessed moderation in FY19 though continued to remain comfortable. The EBITDA margin has deteriorated from 26.56% in FY18 to 21.98% in FY19. During FY19 the company focused in undertaking new product development, trials and qualification products for new export customers, which are essential process of getting new business in this industry. This resulted in increased operating expenses and consequent moderation in margin. However, EBITDA margin improved significantly in Provisional 11MFY20 and expected to remain comfortable in FY20.

Key Rating Weaknesses

- **Moderate scale of Operations**

The total operating income of the company has remained moderate in 11 M FY20 at INR 40.49 Cr as against INR 39.97 Cr in FY19. Sustenance in growth in revenue will remain a key rating sensitivity.

- **Susceptibility to foreign exchange fluctuations**

Some of the key raw materials used in manufacturing activities of the company are specialty alloys – which are made of Nickel, Titanium, Cobalt and High strength Aluminum up to 80-85% of these materials gets imported from different countries. Further, imports constitute ~80-85% of the company's raw material requirement which exposes the company to foreign exchange fluctuation risk.

- **Working capital intensive nature of operations marked by elongated receivable period**

The operations are working capital intensive, as reflected by operating cycle of 105 days in Provisional 11M FY20 owing to elongated receivables of 162 days increased from 152 days in FY19 due to large number of invoicing happening in the last two months of a financial year.



Press Release

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The liquidity position of the company is expected to remain adequate as the company is expected to generate steady cash accrual over the near medium term and will meet near term debt repayment obligations comfortably. The company has projected cash accruals in the range of INR 11.60 Cr to INR 13.71 Cr as against debt repayments of INR 1.17- INR 1.27 Cr in the projected period FY21-FY22. Further, its bank limits remained moderately utilized to the extent of ~5.63% during the past 12 months ended May, 2020 indicating comfortable liquidity buffer. The current ratio stood at 1.44x in as on March 31, 2019 & 1.64x as on 11M FY 2020 and remained satisfactory.

About the Company

VEPL was incorporated in 2007 by Mr. P. H. Subramoni (Director). The company is engaged in the manufacturing of high precision components and processing of specialty materials including titanium, nickel, cobalt, and aluminium alloys at Chennai (Tamil Nadu).

Financials: Standalone

For the year ended*/As on	(Rs. crore)	
	31-03-2019	29-02-2020
	Audited	Provisional
Total Operating Income	39.97	40.49
EBITDA	8.78	13.53
PAT	3.17	8.05
Tangible Net worth	14.51	22.02
EBITDA Margin (%)	21.98	33.42
PAT Margin (%)	7.86	19.89
Overall Gearing Ratio (x)	0.79	0.41

**As per Infomerics Standards*



Press Release

Status of non-cooperation with previous CRA: The rating was migrated to Issuer non-cooperating category by ACUTE vide its press release dated January 09, 2020 due to lack of cooperation from the client.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	WCDL	Long Term	1.50	IVR BB+/Positive Outlook (IVR Double B Plus with Positive Outlook)	-	-	-
2.	Term Loan	Long Term	7.40	IVR BB+/Positive Outlook (IVR Double B Plus with Positive Outlook)	-	-	-
3.	BG*	Long Term	25.20	IVR BB+/Positive Outlook (IVR Double B Plus with Positive Outlook)	-	-	-

* INR 8.00 Cr of Cash Credit is sub limited and INR 17.40 Cr of LC is sub limited

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Mr. Rajat Maheshwari
Tel: (011) 24611910
Email: rmaheshwari@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for



Press Release

positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – WCDL	-	-	-	1.50	IVR BB+/Positive Outlook (IVR Double B Plus with Positive Outlook)
Long Term Bank Facilities – Term Loan	-	-	August 2024	7.40	IVR BB+/Positive Outlook (IVR Double B Plus with Positive Outlook)
Long Term Bank Facilities – BG	-	-	-	25.20*	IVR BB+/Positive Outlook (IVR Double B Plus with Positive Outlook)

* INR 8.00 Cr of Cash Credit is sub limited and INR 17.40 Cr of LC is sub limited